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**BEFORE THE**
**POSTAL REGULATORY COMMISSION**
**WASHINGTON, D.C. 20268-0001**

**Rate Adjustment due to Extraordinary or Exceptional Circumstance** | **Docket No. R2010-4**

# Initial Comments of the American Catalog Mailers Association (ACMA)

(August 17, 2010)

On July 6, 2010, under exigent rules, resulting in the instant docket, the Postal Service proposed a range of rate adjustments, with an average increase of about 5.6 percent. By Order No. 485 (July 8, 2010), the Commission invited initial comments by August 17. ACMA is pleased to submit these comments.

## I. INTRODUCTION

ACMA members offer a wide range of goods and services available to businesses and consumers, marketed largely through traditional, physical catalogs that are distributed through the Postal Service, mainly using the Standard rates for flats. Postage is amongst the largest portion of their costs. Also, their catalogs account for a very high proportion of the volume of Standard flats. Accordingly, postage rates are critically important to ACMA members, and our volumes are critically important to the Postal Service.

Catalogs present both photographs and descriptive material, authoritatively prepared, convenient for review and sharing, and suitable for future reference. They are generally viewed as among the most sought-after mailpieces. Although ACMA members use all classes of mail, their operations hinge most heavily on the Standard rates for flats. These comments focus on those rates.

## II. AN EXIGENT INCREASE AT THIS TIME IS NOT IS NOT JUSTIFIED AND IS NOT IN THE INTERESTS OF THE MAILING COMMUNITY

ACMA was a signatory to the July-26 Motion-to-Dismiss of the Affordable Mail Alliance. ACMA is also a signatory to the comments filed separately today by the Affordable Mail Alliance and the Periodicals and Catalogs. We continue to believe that the instant request does not fit well into the scheme envisioned by the PAEA and that it would not be best to proceed with it at this time. We support the further comments of that Alliance filed today.

One particular characteristic of the exigency proposal makes it problematic in its entirety. Namely, the 5.6-percent increase is to become a part of the rate platform on which the future is built. It will not go away. It will be there for all future years. If a CPI-allowed increase were to be implemented in, say, another year, it would build on the rate level established by the 5.6-percent increase, compounding the burden on mailers.

The magnitudes involved are notable. The before-rates revenue for FY 2011 is estimated to be $67.8 billion (Statement of Stephen Masse, p. 11). Applying a 5.6-percent increase to this figure gives $3.8 billion. This is the burden being presented to mailers, although there would be leakages to the Postal Service due to volume declines. Therefore, if the horizon is taken to be 10 years, the exigency proposal is a $38 billion burden on mailers and something short of $38 billion in relief to the Postal Service.

Fortunately, recent review has shown the decades-old formula for calculating the Postal Service CSRS contribution to be unfair to mailers and, basically, unreasonable. A Commission-supported study found the level of overpayment to be in the range of $50-$55 billion. Since the annual burden established by the formula played a role in leading the Postal Service to its current position, it seems reasonable that the overpayment should be used to modify that position and help put the Postal Service on a manageable trajectory.

In other words, if the $50-$55 billion were to be used to satisfy the healthcare obligation for future retirees and to reduce the Postal Service's current debt level, and if the Postal Service at the same time were given additional wherewithal (or at least clarified freedoms) to align its costs with its volume levels, levels that would be envied by any other country, it seems quite possible that a future built on the current rate platform, instead of on a platform elevated through exigency by an amount pegged $38 billion higher, could be effective in both preserving the Postal Service and meeting mailer needs. ACMA strongly prefers this course over one involving exigency.

## III. EVEN IF AN EXIGENCY RATE INCREASE WERE FOUND TO BE JUSTIFIED, THE RECORD ON COSTS FOR STANDARD REGULAR FLATS WOULD NOT SUPPORT AN ABOVE-AVERAGE INCREASE FOR THEM

### A. The Trend in the Costs of Flats Is Unexplained and Substantially Disturbing.

In Docket No. R2006-1, a presort tree was used to display the cost relationships underlying the rates for all categories of Standard Mail. The costs shown in the tree are the sum of mail processing costs and delivery costs, which account for 90 percent or more of the total costs of the categories.

In the Regular category, the difference in costs between flats and letters at the top of the tree was the difference at the mixed ADC level, non-automation. As projected for FY 2008, the (unit) cost of flats was 38.0 cents and of letters was 10.0 cents. These costs led to a rate increase for flats ranging in most cases from 20 percent to 30 percent. Later, when the Commission completed its 2008 Compliance Determination, *actual* costs became available. The actual cost for flats was 51.6 cents and for letters was 10.5 cents. That is, the cost for flats in FY 2008 was 35.8 percent (51.6/38.0) higher than it was expected to be.[1] The cost for letters was only 5 percent higher.[2]

These results raise disturbing questions about the validity of the costs. The costs projected in R2006-1 for FY 2008 were based on actual costs for FY 2005, rolled forward to FY 2008. The roll-forward process was sophisticated and complex, including detailed attention to macro-economic variables and on-going programs. ACMA wonders why the costs of flats were 35.8 percent higher than they were expected to be?

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[1] The variance of 35.8 percent, a difference at the mixed ADC level, is not isolated. The variance at the ADC level was 43.4 percent, at the 3-digit level was 44.7 percent, and at the 5-digit level was 42.4 percent. The variances for the automation categories were of similar magnitude.

[2] Actual-outcome costs for FY 2008, both mail processing and carrier costs, are contained in PRC-LR-4, FY 2008 ACD. The roll-forward (estimated) costs for FY 2008 are contained in PRC Workpapers in Docket No. R2006-1. Carrier costs are in PRC-LR-11, sheet UDCmodel.PRC.xls. Mail processing costs for flats and letters are in PRC-LR-15.

Corresponding costs are available for FY 2009, from the Commission's 2009 Compliance Determination.[3] The cost shown there for flats is 59.2 cents, 14.73 percent higher than one year earlier. Using figures for March as representative for the year, the CPI-U (not seasonally adjusted) in 2008 was 213.528 and in 2009 was 212.709. That is, the CPI-U <u>declined</u> by 0.384 percentage points. Clearly, general inflation did not play a role in this increase of 14.73 percent.

The above results can be combined to go from R2006-1 to the present. Based on estimated (rolled forward) costs for FY 2008, flats were given an unusually large rate increase, implemented in May of 2007. The actual costs for FY 2009, on which the purported below-cost coverage for flats is based, are 55.6 percent higher than the estimated FY 2008 costs. This percentage is for non-automation flats at the mixed ADC level, the pivotal cost determining the rate difference between flats and letters.[4] These are astonishing increases.

Other comparisons are possible. In "Questions Proposed by Periodical and Catalog Mailers for Hearings on August 10-12, 2010" (August 5, 2010), it was noted that the "reported unit cost of mail processing and delivery for Standard Mail Flats more than doubled between FY 1999 and FY 2009." This comparison is also troubling. It becomes even more so when it is realized that over the decade covered, the proportion of mail dropshipped increased, the proportion presorted to five digits increased, the proportion of machinable and

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[3] Mail processing costs are in PRC-LR-11 and carrier costs are in PRC-LR-19.

[4] The increase of 55.6 percent is not isolated. For example, the corresponding increase for the 5-digit category is 66.51 percent and for the 5-digit automation category is 65.16 percent.

automation-compatible mail increased, and, we believe, the proportion of mail on pallets increased, all of which should have contributed to cost reductions. At the same time, improved flats sorters were brought on-line, with improved automation features. Similar questions have been raised about the cost trends of Periodicals, which are mostly flats.

And during the decade these costs have been increasing inexplicably, catalog mailers have been required to improve the preparation of their mail, at no small cost to them. Their expectation has been that they are contributing to a low-cost mailstream. The prospect of further rate increases is wrong, unjust and disheartening to say the least. Some sort of inquiry seems warranted.

<u>B. In Its FY 2009 Annual Compliance Determination, the Commission Addressed Some of the Questions Surrounding Costs, and Asked for a Response. A Reasonable Response Has Not Been Forthcoming.</u>

In its 2009 Compliance Review, the Commission examined some of the issues surrounding the high costs for flats, which underlie the low cost coverage reported. Here is the result of its examination:

> For the reasons stated above, the Commission finds the rates for Standard Mail Flats neither recover attributable costs nor make a reasonable contribution to institutional cost. *The Commission finds that the appropriate action is for the Postal Service to devise a plan to improve the cost coverage of the Standard Mail Flats product. This plan should include any operational or mail preparation changes that the Postal Service deems necessary, as well as a specific timeline for achieving a positive contribution for the Standard Mail Flats product.* [Determination, p. 86-87, italics in original.]

In the instant docket, in response to this directive, the Postal Service filed a “Flats Strategy” document, containing, by the Commission’s count, 29 strategies (*see* POIR No. 1, Question 1). Questions have been asked about these strategies, including at the hearing on August 12. In the end, Frank Neri, a designated Postal Service representative, said: "… I don't know whether or not any of these programs will lead to savings" (Tr. 3/326).

No analysis of cost trends was presented. No explanation was provided of what is happening that might lead to the cost results. No operations discussion was provided. No reference was made to how the mail is prepared or how it is being handled. No model was presented of what the costs "should" be. We believe much more should be required. Many ACMA members mail tens of millions of pieces per year. If rates were to follow the costs that are being presented, a number of cents per piece would be at issue. The result would be millions of dollars in added postage. The effect would be disruption and volume declines.

The questions being raised about costs are serious, and they are being raised at a time in history when the Postal Service is focusing on excess capacity and struggling to align costs with volumes. It seems possible that, particularly as volumes decline, costs are nowhere near as variable as the cost systems purport. This would suggest low marginal costs and a high cost coverage, consistent with the "short-run" variable costs being used by the Postal Service to analyze some of its incentive programs.

Other explanations are possible. It could be that some mail is being prepared poorly and that the Postal Service is spending exorbitantly to process it.

It could be that constraints on staffing are leading to pools of costs that are excessive and that IOCS tallies are being used to assign them, without asking whether the pools are 100 percent volume variable. It could be that the piggyback factors being applied do not relate to current operations. It could be that the machinery being used is poorly managed or staffed.

ACMA members would be happy to be a part of reviewing operations in various facilities and trying to determine what is wrong, much as was done for Periodicals in 1999.[5] We are interested in a streamlined, low-cost mailstream. We are interested in preparing our mail so that it fits nicely into such a stream. If changes need to be made, we want to help make them. If changes in the rate structure are needed to send appropriate signals, to help identify categories that are causing costs to be high, the changes need to be identified and explored.[6]

As it stands, we see costs that defy rational explanation. These costs should not be accepted as meaningful and they should not be used as a basis for disruptive rate increases that will cripple the catalog industry and leave the Postal Service in a worse position than before. Importantly, mail that leaves the system will not likely come back.

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[5] *See* Report of the Periodicals Operations Review Team: A joint review to improve mailer and postal operations affecting Periodicals Class Mail, and Direct Testimony of James O'Brien, TW-T-2, May 22, 2000, Docket No. R2000-1.

[6] We note, for example, that the Commission recommended an improved rate structure for Periodicals in Docket No. R2006-1. The new structure points to the costs caused by the way the mail is bundled and containerized. Standard mailers are receiving no such information in their rates.

C. Serious Questions Exist about How the Advent of the FSS Will Affect Rates. A Transition Plan Is Needed.

FSS machines are being installed. Slowly, progress is being made on getting the mail made up to the machine. *See* Tr. 3/347, l. 21. We see the success of the FSS program as essential. Success will be measured in unit cost reduction. In the case of DSCF entry and 5-digit presort (or FSS-scheme bundles), the mail would simply be put through the FSS and taken out by carriers. Corresponding preparation would apply to other presort tiers. The costs to process the mail should be low. Extra steps need to be avoided.

But when it comes to rates, it is not clear that we are taking appropriate steps. Consider the basic situation. A rate, a cost, and a corresponding cost coverage exist for Carrier Route flats. The cost coverage is considered suitable. In some regards, then, Carrier Route flats pass all tests. Similarly, a rate, a cost and corresponding cost coverage exist for 5-digit flats. Here, however, the cost coverage is reported to be below 100 percent, which might be considered not-suitable.

Now consider the effects of the FSS. If the FSS really is a better way to process and deliver flats, the cost of 5-digit FSS-scheme flats should be lower than the cost of Carrier Route flats. This means that the rate for 5-digit FSS-scheme flats could be brought down to the level of the rate for Carrier Route flats.[7] And as this occurs, it appears that the cost coverage would go from something below 100 percent to something suitably above 100 percent.

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[7] We leave it to others to work out how this should be done. It would seem, however, that the DMM could specify that, on the basis of costs and handling, 5-digit FSS-scheme mail qualifies for the Carrier Route rate. Particularly in a situation where the Postal Service would opt to

The juxtaposition here suggests anomalousness. The current 5-digit rate (DSCF entry) is 30.3 cents. Increasing this by 16 percent, to approximate a cost coverage of 100 percent, gives a rate of 35.1 cents.[8] The proposed Carrier Route rate is 23.0 cents. Thus, a discount of 12.1 cents (35.1-23.0) could be given, relative to the 5-digit rate, for FSS-scheme flats, and the cost coverage would go from 100 percent to a level suitably above 100 percent. These are very rough figures. Just on their face, however, the difference appears too large, suggesting that the 5-digit rate may not be below cost at all. Rather than take steps that would be counterproductive and leave the Postal Service in a poor position to face the future, not to mention the effect on mailers, now is not the time for a large increase in the 5-digit rates. Some sort of transition plan should be developed.[9]

The question of an FSS-scheme rate was raised by Chairman Goldway at the August 12 hearing (Tr. 3/422-28). Kiefer explained that creating such a rate would involve "deaveraging," and that deaveraging involves "policy considerations" and would have a "push up-push down effect." We submit that creating an FSS-scheme rate does not involve deaveraging, particularly since no

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process Carrier Route mail on the FSS, this makes total sense, and it might not take a case at the Commission to do it.

[8] Kiefer, p. 29, l. 7, suggests that an increase of approximately 16 percent would be needed to bring flats up to a cost coverage of 100 percent, based on the costs being reported.

[9] Note that this same issue is being faced in Periodicals, where, for any Carrier Route mail that does not convert to FSS-scheme (which is all Carrier Route mail at the present time), a larger than average increase is being proposed (in percentage terms). Kiefer, p. 49, ll. 13-16. No evidence is presented that the cost of Carrier Route mail has increased. The more reasonable path to FSS schemes would be to announce that, for FSS-scheme mail, the 5-digit rate will be reduced toward the Carrier Route rate. This would avoid disrupting co-mailing operations and would increase the chances of a successful transition to an FSS environment. In other words, it would grease the skids and avoid throwing out the baby with the bath.

one is now preparing mail that way. Accordingly, it would not have a "push up-push down" effect. Fundamentally, it is nothing more than a process of introducing a new rate element.

In addition, we would note that creating an FSS-scheme rate is not made difficult by the existence of a rate cap or a rate-cap calculation. The rate indexes to be compared with the cap are calculated with base-period weights. In the base period, the volume of FSS-scheme mail is zero. Therefore, the weights in both the numerator and the denominator are zero for the FSS rate. Neither is a difficulty caused when mailers respond to an FSS rate. A mailer moving from 5-digit to FSS would see a rate reduction and the Postal Service would see a cost reduction. A mailer moving from Carrier Route to FSS would see no rate change and would cause no cost change for the Postal Service (assuming for this example that the FSS cost equals the Carrier Route cost). In neither case is the Postal Service harmed. The mailer is helped. Three-digit, ADC, and mixed ADC mailers would be helped as well. Because it works in this way, the cap-calculation procedure encourages cost recognition and economic efficiency.

The questions surrounding FSS-scheme rates need attention. Mailers will be affected and they deserve an opportunity to contribute to progress. Lead time is needed. Co-mailing and co-palletization activities will be affected. The nature of the current situation and the questions that exist both suggest that this is not the time for disruptive rate adjustments.

D. Even Apart from the Question of Whether Meaningful Costs Are Available for Meaningful Categories, the Information Available to Support Ratesetting Leaves Much to Be Desired.

Under the PAEA, the Postal Service has strong reasons to be interested in its profitability, both long-term and short-term. But pursuing this goal is not easy.

As an initial step, the Postal Service has divided its services into products. Each product has one or more rates associated with it, often referred to as rate cells. Together these rate cells comprise the rate schedule for the product. Some products are broad and some are narrow. The degree of intra-product homogeneity varies widely.

Title 39 refers numerous times to products. It explains in § 102(6) that when it refers to a product, it "means a postal service with a distinct cost or market characteristic for which a rate or rates are, or may reasonably be, applied." Since all of the products selected by the Postal Service are services with a rate schedule, and therefore with a rate or rates applied to them, and since these products all have distinct costs or market characteristics, at least until shown otherwise, it is clear that when Title 39 refers to a product it can be taken to be referring to the products the Postal Service has selected. There are no other candidate groupings for it to be taken as referring to.

If the Postal Service were to subdivide its products further, or even aggregate them, Title 39 would then be taken to be referring to the new list of products, so long as each of them have a rate schedule and have a distinct cost or market characteristic. Since costs and markets vary widely, the number of possible products should be taken as large. But this section does not require that all services with a distinct cost or market characteristic be designated as a product.

Of present interest, Carrier Route Mail (letters and flats and parcels combined, including both the commercial and nonprofit categories) has been taken as one product. Standard Regular Flats (commercial and nonprofit combined) has been taken as a product, apart from Standard Regular Letters and Standard Regular Parcels, both of which are also separate products.

Later in Title 39, section 3622 requires the Commission to establish a system 'for regulating rates and classes for" the products that are designated market dominant. A factor that the Commission must take into account in establishing this system is "the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to" it (§ 3622(c)(2)). Interestingly, this subsection provides a choice of focusing either on a "class" or a "type of mail service," but it does not refer to a product, a term used pervasively throughout the new law.

As a practical matter, ACMA is concerned that much of the usage of Standard Regular Flats (one product) is residual to the use of Carrier Route (another product). Also, the relationship between the two is central to co-mailing decisions, and we take co-mailing to be an efficient operation—why sort mailpieces mechanically when the computer and the printer can cojoin them? In short, the product definitions at issue are not well aligned with what is happening in the market, including that they combine both commercial and nonprofit mailers.

Under these conditions, we question whether section 3622(c)(2) should be taken to apply rigidly to the Standard Regular Flat product. That is, the definition of the product is rather arbitrary and the section does not refer to a product. Also, we have argued above that the costs available for Standard Regular Flats are left significantly wanting, so much so that they should not be used as a basis for rate adjustments, much less disruptive ones.

But let's assume that a product such as Standard Regular Flats is selected and that a meaningful cost for it is available. What is involved in proceeding to set its rates? ACMA wishes to mention two specific concerns, both of which are in need of attention.

**First, better information on elasticity is needed.** Assuming rate categories are not divided further, or even if they are, an important consideration in any ratesetting activity is the reaction of the market to rate changes. This reaction is usually expressed as an elasticity measure. The only elasticity measures available on the record are the ones developed econometrically by the Postal Service. Specifically, four measures are available: Commercial Standard Regular (letters, flats, and parcels combined); Nonprofit Standard Regular (letters, flats, and parcels combined); Commercial ECR (a defunct category composed of letters, flats, and parcels in Carrier Route, High-Density, and Saturation, all combined); and Nonprofit ECR (a defunct category composed of letters, flats, and parcels in Carrier Route, High-Density, and Saturation, all combined). The two products/categories used most heavily by ACMA members, Commercial Standard Regular Flats and Commercial Carrier Route Flats, are buried deeply.

During the August 12 hearing, Commissioner Acton asked Kiefer about an elasticity measure for "standard mail flats," (Tr. 3/459) which we take to mean Commercial Standard Regular Flats. He responded that attempts had been made to develop one such measure but that the data needed have "only been available for a relatively shorter period of time." We are somewhat puzzled at what the problem may be. Volumes and rates for subject flats have been available since the implementation of the R90-1 rates. The econometric equations use quarterly data. Seventy-six quarters is a reasonable observation period. We believe the Commission should encourage the Postal Service to continue working on this question. Similarly, we would be interested in an elasticity study for Commercial Carrier Route Flats. However, non-econometric approaches should not be rejected.

Our reason for being interested in these elasticities is that we believe these categories are much more elastic than the aggregate figures suggest. For example, the elasticity available for Commercial Standard Regular is -0.244, well below (in absolute value) what most catalogers believe they exhibit. As a further comment, we would argue that when statistically defensible elasticity measures are not available, a case can be made for the flexibility to rely on informed judgment. Doing this is not uncommon in business.

The other component of catalog elasticity is that the speed with which price increases can destroy volume in no way matches the speed with which volume can be built. In addition to the need to do analysis of elasticity, ACMA strongly believes that any elasticity model should account for the multi-year positive or destructive impact of price changes. It must also understand that it is easier and quicker to destroy than to build. Consider the catalog volume changes by year since the implementation of the R2006-1 rate case that show a steady migration of catalog volumes out of mail each year since. Actually, the Year 1 price increases fuel a multi-year cycle of volume decline that is fully demonstrated by the approximately 35% volume declines instigated by the 2007 price increase, with the most pronounced impact occurring before the onset of the Great Recession. Adding an exigent increase on top of this in the current economic environment only exacerbates this.[10] In an increasing price environment, price driven Year 1 volume declines are only the tip of the iceberg (the "spiraling effect"). At the point that this error is finally understood, catalog customer files will have declined so significantly that it would take years of price incentives to regenerate new file growth to return to historic levels. Unfortunately, the scale of the standard mail category will be so much smaller by the time that this challenge is understood that cost and price based solutions may not be as material by the time they are implemented.

**Second, more attention is needed to multiplier effects.** It is understood widely that there are interrelationships among various postal products. For example, a catalog sale might result in associated First Class letters or in the use of a parcel category. Sometimes the multiples can be high.

[10] Exhibit 1, Statements from ACMA members indicating the effect the proposed exigency increase will have on their mail volumes, profits and employment is attached for reference so they may be incorporated into the record.

More information on these relationships is needed. The flats category is large enough to warrant inquiry.

Further, we throw open the question of how best to use multiplier-effect information if it becomes available. Since some mailers in a category might have much larger (and more extensive) multiplier effects than others, there may be a way for the Postal Service to gain by segmenting existing categories and treating the segments differently. Here again, if a desired quantitative analysis is not available, flexibility to rely on informed judgment should exist.

## IV. CONCLUSION

ACMA supports the position of the Affordable Mail Alliance that the situation presented, though serious and in need of attention, does not qualify as an exigency. Part of our concern is that, selecting a 10-year horizon, the proposed rates present mailers with a $38 billion burden, on which further increases will be compounded, not a contribution to putting the Postal Service back on track. Furthermore, it appears that Congress put the Postal Service in a situation where it is now sowing the seeds of its own demise, and it is Congress that should rectify the situation. Fortunately, CSRS funds appear to be available to do just that.

Beyond the exigency issue, we explain that serious questions exist about the validity of the costs available, and therefore about whether Standard Regular Flats are in any meaningful way below cost. The Postal Service has not responded to the Commission's inquiry on associated issues. Under these conditions, disruptive rate increases with many irreversible affects should be avoided, as not in the long-term interests of mailers or the Postal Service.

Finally, we support efforts to develop better information on the elasticities and multiplier effects of Standard Flats.

Respectfully submitted,

**American Catalog Mailers Assn., Inc.**

By:

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Exhibit 1: Statements of Impact of Exigent Rate Increase on Catalogers

A. Terri Alpert, Founder and CEO, Stonycreek Brands
B. Bob Runke, President, Barco Products
C. Doug Hershey, Executive Vice President, New Pig Corporation
D. Lynda Swann, President and Owner, National Wholesale
E. Andrew S. Katz, President, CEO and Owner, PetEdge
F. Rick Hodges, President and Owner, Hodges Badge Co.
G. Jim Coogan, Owner, Catalog Marketing Economics, consultant to the catalog industry

August 16, 2010

Postal Regulatory Commission
901 New York Ave NW Ste 200
Washington, DC 20268-0001

Dear Commissioners,

I am writing to you as the Chief Executive Officer of two direct-to-consumer companies, *Uno Alla Volta® LLC* and *Cooking Enthusiast® LLC*. **I respectfully request that you reject the exigent rate case filed by the USPS.**

Both *Cooking Enthusiast* and *Uno Alla Volta* sell to consumers across the nation via catalogs and websites, offering unique merchandise rarely found elsewhere, to customers who shop from the convenience of their homes. The companies are supported by a common infrastructure, which provides economies of scale, without which neither entity would be able to survive. *Stony Creek Brands LLC*, the sister entity that provides these services, employs 54 people year-round in North Branford, Connecticut, and many part-time and seasonal workers.

Stony Creek's mission is to create exceptional brand experiences that enrich and enhance our customers' lives by fostering human connections. We strive to do this while always remaining true to our core values of integrity, creativity, excellence, accomplishment, and sustainability. In order to achieve this mission, **we in-source all functions.** Our customer experience center is located at our headquarters (no outsourced call center could ever provide the human element and product knowledge we do), as is our fulfillment center, and our merchandising, inventory planning, marketing, creative, prepress functions, information technology and finance departments.

*Uno Alla Volta* is especially unique in both the nature of the products we offer and our supply chain. Our name means *One At A Time®* in Italian and this name and our tagline *From The Hearts and Hands of Artisans®* sum up our brand. We bring handcrafted items, largely from small "ma and pa" companies (often just "ma"), to customers across the nation who appreciate the human touch. The majority *of Uno Alla Volta*'s customers are women over the age of sixty, and only small percentage of these women shop online. The catalog is the primary way we link our artisans with our customers, providing market access to hundreds of small companies, and unique product to thousands of discerning consumers.

After cost of goods, **postage is our single largest expense**. In fact, we spend more on catalog postage for our two brands than we do on all employment related costs including benefits. **Our catalog circulation is extremely sensitive to pricing. We have no "anyway" mail.** The majority of our circulation is sent to prospects in the hopes of converting them to become customers. Prospecting is, for us, an investment. We do not bring in enough in revenues to pay for the cost of mailing these people. Rather, we justify the investment based on the future value of the customers. As postage rates go up, the acquisition cost of a customer rises, and the future value of the customer declines. As the acquisition cost of a customer from a prospecting universe approaches or exceeds the future value of the customer, that universe becomes unmailable. Not only is that circulation removed from our prospecting effort, but so is the future circulation that would have been mailed to those customers we would have acquired from these efforts.

**Our circulation, our revenues, and our ability to create jobs all decline with each postal increase.**

**Our companies have yet to recover from the 2007 increase**. This increase amounted to approximately 5% of our revenues and exceeded our profits in our very best year. *Cooking Enthusiast*'s catalog circulation in 2008 was 4.7 million and *Uno Alla Volta's* was 8.3 million, totaling 13 million for a total postage bill (excluding all our first class and parcel postage) of $3,700, 000. Unfortunately, in 2008 the two companies produced a substantial net loss, by not reacting to the postal increase as nimbly as we should have and by assuming 2007 response rates would hold. Therefore, in 2009, we slashed our combined circulation by **2 million pieces**, reducing our postage costs by over $700,000. We did this by dramatically reducing our investment in prospecting to a level below that, which can compensate for normal attrition. This was necessary to allow the 2009 year financial results to be just above breakeven and our doors to remain open. Unfortunately, if we cannot afford to prospect at a rate that will allow us to grow our customer base and grow our contribution dollars, we will be unable to continue to cover our overhead.

The economics of cataloging are such that any increases in postage rates are more than offset by decreases in volume. Therefore, commissioners, even if you decide that current USPS circumstances meet the definition of exigency (although clearly this was not the intention of Congress when it passed the Postal Reform Act as explained by author Senator Susan Collins), **I urge you to recognize that rate increases will NOT have the desired effect, but will instead cause USPS mail volumes and revenues to continue to fall.**

**Commissioners, you have a choice. Together, we can continue the downward spiral**. Your decision to approve postage rate increases in excess of the rate of inflation will result in mail volumes contracting further. It may result in continued catalog company closures. Stony Creek Brands, like many of our peers, is in peril. As we shut our doors, our jobs and those created by our supply chain will be lost forever. **Or together, we can reverse the trend and begin to spiral upwards again.** For the latter to happen, the USPS must make the difficult decisions to align its cost structure with the realities of the 21st century. **The decision is in your hands.**

Thank you for your attention.

Sincerely,

Terri S. Alpert
Founder and CEO

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July 9, 2010

Postal Regulatory Commission
901 New York Avenue NW, Suite 200
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Commissioners:

The 2010 exigent rate case filed by the USPS is a recipe for disaster. In your role as oversight leaders, I am respectfully asking you to reject it in its entirety. The effect of ANY increase in rates, will be a commensurate decrease in mail volume. Ladies and Gentlemen, if you support and/or approve higher rates, you will be contributing to the ultimate bankruptcy of the USPS, not to mention the catalog mailers, periodical mailers, and non-profit organizations that will get swept into the gutter along with it.

Leadership is the key quality needed to resolve this debacle. And, at the risk of heresy, I will suggest that you need to put politics aside and behave impartially. Having supported and worked closely with the American Catalog Mailers Association (ACMA) from its inception, I KNOW three things: 1) the USPS needs to recover as much of its lost mail volume as it can; 2) the USPS needs to continue to drive costs out of its operations, and 3) there are bona fide ways to do both, none of which have been acted upon.

Regarding volume recovery, catalog mailers have repeatedly demonstrated the price elasticity effects of rate changes, i.e. raise rates, volume falls; reduce rates, volume increases. For example, I am mailing about one-third the number of catalogs in 2010 than I mailed in 2007. My first draft circulation plan for 2011 is even lower, since I'm factoring in a 5 to 7% rate increase. If the USPS were to roll-back rates to what they were in January of 2007, I would immediately <u>return to mailing 3 times what I mail today</u>. And don't be swayed by the "so-called Postal Sales"; they were ill conceived, poorly executed and were doomed to failure because the USPS insisted on having a "safety net", i.e. the sale price only applied to incremental volume . . . not all volume. Remember . . . . "anyway mail"? . . . It does NOT exist.

Regarding cost reductions, those of us in small businesses that depend on the USPS for our livelihood, and those of us who have down-sized by 40% over these last two years, and those of us who have had to REDUCE our employee benefit levels, are more than a little irate about the seemly ridiculous $5 billion annual pre-funding requirement for retiree health care benefits that the USPS has to pay out of current operations. I've met with Jack Potter and Terry Donahue and their teams; they KNOW their business. When they request 5-day delivery, they do it knowing the net cost reduction will be significant. When they suggest closing offices, they should be heeded. No business in the world needs 38,000 offices.

The USPS and its oversight bodies continue to tell us they are "forced" to use outdated and questionable cost studies to price certain classes of mail. The "attributable cost" methodologies have been debated hotly, and contested compellingly, yet these flawed methodologies are used continuously to make rate decisions, because flawed or not, they are the only ones that exist! Let's take a breather and recompile the data so that accurate empirical data is used in such sensitive decisions.

Please help us. Reject this rate case. I'm too old to start over; and economically unable to retire.

Cordially,

Robert H. Runke

Robert H. Runke, President
Barco Products Company

New Pig
One Pork Ave. • Tipton, PA 16684 • (814) 684-0101 • newpig.com

August 16, 2010

Postal Regulatory Commission
901 New York Ave NW Ste 200
Washington, DC 20268-0001

Dear Commissioners,

We respectfully request that you do not accept the exigent rate case filed by the USPS, or alternatively, if you do, that you not raise rates for business mail and packages at this time.

We are a company marketing industrial absorbent, safety and material handling products to businesses via catalog and our website. This year, we will pay in excess of $3 million for postage and we currently employ more than 500 people at New Pig and its subsidiaries. Postage is our largest single expense item when mailing catalogs. Most of our postage expense is for catalog mailings, but our efforts also drive almost 200,000 First Class letters and Standard Mail letters for orders and other communications.

As Senator Susan Collins announced this week, declining volume does not constitute exigent circumstances under the Postal Reform Act, the goal of which was to link postal rate increases to the rate of inflation.

Raising postage rates now, just as we may be headed out of a long consumer recession, is counterproductive for both the long-term health of the USPS and all those of us who depend on it.

Even if you determine that there are exigent circumstances, however, we urge you not to raise rates on business mail for our sake and the sake of the USPS. It is clear that <u>higher rates will significantly reduce mail in the postal system</u>. This was clearly demonstrated after the crippling increases in catalog postage in 2007; and it was clearly demonstrated that lower rates, as in the 2009 Summer Sale, causes an increase in volume. Given the huge percentage of USPS costs that are fixed, volume has to be the major driver in its profitability.

The impact on us will be equally important. In this recessionary environment, we have to be looking to reduce all costs, especially our marketing costs. Higher postage will require us to mail less and use electronic marketing more. Since the 2006 increase, we have significantly increased our electronic marketing expenditures.

In conclusion, we ask you to help the USPS, New Pig and our employees and suppliers by not raising postal rates.

Sincerely,

Douglas J. Hershey
Executive Vice President

Postal Regulatory Commission
901 New York Ave NW Ste 200
Washington, DC 20268-0001

August 16, 2010

Dear Commissioners,

We respectfully request that you do not accept the exigent rate case filed by the USPS, or alternatively, if you do, that you not raise rates for business mail and packages at this time.

We are a small family owned company marketing a variety of Women's clothing, undergarments and special needs products to mature consumers and seniors via catalog and our website.

This year, we will pay over $4.25 million for postage to mail our catalogs and we currently employ 150 people in Lexington, North Carolina. Postage is our largest expense item besides the cost of merchandise we sell. A majority of our postage expense is for catalog mailings, but when we include package shipments delivered by the USPS, First Class letters, Standard Mail letters, postcards and return parcel shipments for orders and other communications all generated by our catalog mailings our total postal related expense approaches $7 million dollars per year. A large portion of our customers still prefer to mail their order in to us, adding another half million first class letters per year to the postal volume generated by our catalog mailings.

Even if you determine that there are exigent circumstances, we urge you not to raise rates on business mail for our sake and the sake of the USPS. It is clear that <u>higher</u> <u>rates</u> <u>will</u> <u>significantly</u> <u>reduce</u> <u>mail</u> <u>in</u> <u>the</u> <u>postal</u> <u>system</u>. This was clearly demonstrated after the crippling increases in catalog postage in 2007; and it was clearly demonstrated that lower rates, as in the 2009 Summer Sale, causes an increase in volume. Given the huge percentage of USPS costs that are fixed, increasing postal volume has to be a top priority, and equally important, doing anything that will further reduce postal volume must be avoided.

Raising postage rates now, as we struggle to climb out of a long consumer recession, is not only counterproductive for both the health of the USPS and all those of us who depend on it, but will serve to further reduce mail and parcel volume.

In our company, any increase in postage rates in this environment will have to be offset with volume reductions in the mail we originate. We cannot absorb this increase and will be forced to immediately reduce the number of catalogs we mail out, ultimately resulting in a corresponding reduction in the number of parcels, First Class letters, Standard Mail letters, postcards and returns parcels generated by our catalog mailing programs.  In our case, the proposed 5.6% increase in postage would lead to elimination of at least 6.5% of our catalog circulation for 2011.  Even In our small company, that would mean 1.25 million fewer catalogs mailed next year.

Higher postage will force us to mail less and ultimately it will mean that we need fewer employees here to take and process customer orders because unfortunately, if we mail fewer catalogs, we will see a corresponding drop in customer orders.

It also will mean that we will use electronic marketing more to offset for the escalating cost of mailing catalogs.  Since the 2006 increase, we have increased our electronic marketing expenditures by 60%, while our postal marketing spend has been flat.  As postal rates have increased, we have had to reduce catalog mailings to hold postal expenses flat.

In conclusion, we ask you consider the long term health of the USPS and the mailing industry: please help the USPS, us, our employees and suppliers by not raising postal rates.  Please do not enable the USPS to continue to avoid addressing their underlying labor cost issues by allowing the requested rate increase.  Please do not allow the USPS to trigger another round of shrinkage in postal volume through an ill advised, and ill timed rate increase.

Sincerely,

Lynda Swann
President and Owner
National Wholesale Company, Inc.
www.ShopNational.com

August 5, 2010

Postal Regulatory Commission
Office of Public Affairs and Government Relations,
901 New York Avenue NW, Suite 200
Washington, DC 20268-0001

To whom it may concern:

I'm writing this letter in strong opposition to the proposed rate hikes (5% on catalog postage and 23% increase on all USPS Standard mail packages) in January 2011. As a private company that has been in business for over 54 years, this will adversely affect my company's ability to remain competitive in these challenging economic times. As a business-to-business catalog and web company, PetEdge mails millions of catalogs to customers throughout the United States so any increase is a significant blow to our bottom line.

Companies like mine are cautiously optimistic about current sales and had hoped to increase new hires following staff reductions in recent years. Additional postage fees will negatively affect any employment increases and we will be forced to re-evaluate our projected catalog mailings with the likelihood of reducing those mailings and increasing our use of electronic media. PetEdge uses USPS services for Standard letters and postcards as well as First Class mail and packages of all types. With hundred of thousands of customers, the negative impact of these proposed increases will be significant.

PetEdge also ships many packages under 2 lbs and the proposed 23% postage hike will impact operational expenses in a way that cannot be recouped by simply increasing shipping and handling charges to offset it.

I strongly recommend that these proposed increases do not occur.

Regards,

*Andrew S. Katz*

President & CEO
PetEdge
978-998-8106

HODGES BADGE COMPANY, INC.

Quality
Award Ribbons
Rosettes
Athletic Medals
Buttons
Since 1920

August 4, 2010

Postal Regulatory Commission
901 New York Ave NW Ste 200
Washington, DC 20268-0001

Dear Commissioners,

I am writing you in regards to the outrageous postal rate hike recommendation of the US Postal Service. If this postal increase should pass, not only will it affect many struggling economically-effected businesses, such as my company, but will also cause greater financial constraints on firms depending on mail as a medium for growth. This increase, if passed, will decrease sales, profit margins and eventually cause future job loss within our industry.

My company, Hodges Badge Co., is a small, fourth-generational family-owned catalog company. We employ 160 people – 100 in Rhode Island and 60 in Missouri. We are a US manufacturer and catalog marketing firm. If we cannot cost effectively mail our catalogs, we will be unable to make a profit and job growth will cease. These proposed rates will *immediately* cause us to cut our budgeted circulation and look to other avenues for saving money. Here's an idea of our mail volumes for 2009 and 2010, as well as our outlook for 2011:

> 2009: We mailed 332,100 catalogs and paid more than $120,745 in postage. In addition, we mail 36,000 invoices annually via first class mail at an estimated cost of $15,840 in postage.
>
> 2010: We cut our circulation slightly and expect to mail 326,675 catalogs with an estimated cost of $147,066 in postage by the end of this fiscal year, giving the USPS a 22% increase in revenue, but with a 1.2% decrease in circulation.
>
> 2011: The proposed new rates are an unexpected and large increase that will definitely force us to reexamine our catalog and overall mail circulation plans.

This increase will negatively impact future contracts with our vendors as we are forced to demand better rates on printing, paper, raw materials and services – or to stop printing and mailing altogether. In short, this increase will force us to focus our efforts on other mediums to market our services.

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1170 East Main Rd
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3 Chamber Drive
ashington, MO 63090

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401-682-2000

Facsimile
800-292-7377
401-682-2329

www.hodgesbadge.com
nfo@hodgesbadge.com

These non-mail mediums will include social media, increased web advertising, e-mail and pdf catalogs delivered over the Internet. These tools will save our company money while continuing to provide effective contacts with our current customers and leads. Because of the cost of postage, direct mail is being disintermediated, and as proposed, this postage increase will only accelerate that. In addition, we will have to introduce electronic presentation of invoices, which we do not currently even offer further depressing the volume we give the post office.

What does the postal rate increase mean for the USPS? We will be forced to use extreme measures to cut our direct mail plan if the USPS passes these extreme increases. It is causing smaller mailers like us to reevaluate our traditional mail means, and to focus our efforts on other options for sales growth. New marketing mediums we are developing are not as expensive and do not impact our profit margins as severely. Based on conversations I have had with my colleagues, it is clear we are not alone in making this switch out of mail. We estimate that when we fully transition to these new delivery tools that the loss in postage revenue from our company will be approximately $147,920, a 91% decrease.

It is critical that you take action on this matter and reject or, at the very least, reduce the amount of the proposed postal rate increase. Plain and simple: Just think of the overall impact it will have on this economy. In the long run, this rate increase will negatively affect not only catalog mailers, but all businesses involved in the catalog mail order industry, including the USPS.

Please excuse my strong language, but it's hard for me not to feel so passionately when this situation puts my business in jeopardy.

Sincerely,

Rick Hodges

President

Consider Postage That Maximizes Catalog Circulation and Increases the Post Office's Profitability!

The USPS needs to consider setting catalog postage rates that help both catalogers and the USPS improve their profitability. <u>The USPS and the Postal Rate Commission should consider keeping Standard Mail rates unchanged for catalogs (and magazines) and actually lowering the carrier route postage.</u> Lowering postage is a novel concept. Why should the USPS consider it? Because carrier route sorted catalogs are a *profitable business* for the Post Office and the Post Office should use lower carrier route postage as a way to push catalogers and printers to increase the volume of catalogs that flow through co-mail programs and qualify for carrier route discounts. Printers and catalogers can actually increase the percentage of mail that is consolidated and sent using co-mail pools thereby increasing the percentage of carrier route mail. The discounts for carrier route sortation have spawned an entire co-mail industry that is shifting costs away from the Post Office and created a win-win situation where the Post Office gets profitable mail and the mailers get dramatically lower costs allowing the catalogers to mail more catalogs profitably.

Increasing carrier route postage savings has already worked to incentivize mailers to find co-mail opportunities. The percentage of catalogs going though the system as carrier route bundles has increased dramatically in the past decade.

There is opportunity for increasing the amount of mail that travels as carrier route bundles because deeper incentives will result in more co-mail pools, and larger and more frequent co-mail pools.

Lowering carrier route postage will actually result in more volume in the short run because printers will build larger and more frequent co-mail pools.

Here is what is wrong with the USPS proposed postal rates.

- The USPS lawyers say it is not fair to question USPS management for being uneconomical, dishonest or inefficient. But the USPS management is in fact "uneconomical" because they don't use any sort of economic analysis to set these rates. If you don't use the science of economics for rate setting, then you can correctly be seen as being uneconomic. The USPS needs to show their economic analysis of what will happen when standard mail rates increase. This analysis needs to include the before and after analysis of the effects of the previous rate increases and their internal economic analysis of what will happen to volume and profitability of standard mail from this proposed increase. If the USPS has done no economic analysis of what will happen to catalog volume and their own profitability from catalogs, then it is fair to say they are being "uneconomic" which violates the statute governing raising rates under the "exigent circumstances" exception.

- The USPS legal reply brief makes the claim that the volume declines were from the recession alone and were "unforeseen." The declines in standard mail over the past three years were largely a direct result of the huge price increases from the past postage increase. Businesses that use direct mail including catalogs and magazines make precise decisions about the level of mail they can profitably economically. So raising the cost of postage for Standard Mail results in a direct, predictable decline in volume. The USPS could reference the major price increase and also the recent smaller price increase and predict with great accuracy the decline in mail volume from this proposed increase. Also their argument that raising postage costs 30%+ three years ago which caused the decline in catalog volume was "unforeseen" is simply wrong. Circulation plans are based on breakeven calculations which are based on postage costs. So volume declines can be predicted with scientific accuracy. The USPS should provide their estimates of volume declines based on the past postage increases and this proposed increase. If they don't have economic estimates of volume declines then the can correctly be called "uneconomic."

- The argument that the decline in volume is a result of the recession is offset by the fact that the recession is easing and catalog circulations are rebounding robustly. Abacus, the catalog cooperative database, tracks catalog circulations closely and while volume Q1 2009 compared to Q1 2008 was off some 14%, circulation of Q1 2010 compared to Q1 2009 was up 8% so the recovery is translating into a rebound in the volume of catalogs mailed. The volume declines are not solely the result of the recession. Volume declines are a result of three primary factors; the transfer of mail volume to the Internet, the recession and the increase in postage costs.

- The standard for "exigent circumstances" is largely undefined and both sides are seeking to have their legal briefs argue for reasonable definitions. But the PRC should make sure the bar for "exigent circumstances" is a high bar or the loophole is so large that the law is meaningless. The USPS reply brief is particularly weak when they argue that they couldn't see the decline in mail volume evolving based on the maturity of the Internet. The Internet and e-mail have been major macroeconomic factors for a long time now. So the USPS arguments that "We didn't see this decline in mail volume coming" and "There is nothing we could have done about it because we are a quasi government body" and "We can't be compared to our competitors UPS and Fed Ex" seem like weak arguments.

The USPS presents legal arguments but not any economic arguments in their reply to the objections raised by the lawyers for the various organizations representing bulk mailers. But the statutory language requires the USPS to be economic (see the HEEM standards). Where are their economic arguments? I strongly suspect that no economic analysis exists. If this is true, then the USPS management can correctly be said to be uneconomic. If the management is uneconomic, then they have not met the standard and this request should be declined and USPS should be required to present a coherent standard mail postage price that has been subjected to some economic analysis.

But a strong case can be made that <u>the USPS can and should find ways to increase the volume of profitable bulk mail (especially catalogs).</u> The USPS should keep postage rates the same for standard mail and increase the postage discount for carrier route mail. If the carrier route discount is increased, volume will immediately increase because catalogers's will have larger universes of names that can be mailed above breakeven. The lowering of carrier route discounts will also accelerate the growth of the co-mail industry and produce more mail in carrier route bundles which are profitable for the USPS to deliver. <u>This should result in incremental profitability in additional to greater volume and significantly stimulate the economy.</u> Isn't that a better plan for postage rates for bulk mailers rather than to increase postage and watch volume ratchet down again?

Jim Coogan
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